

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 EB-07 AGR-05 FEA-01
AID-05 CIAE-00 FRB-03 INR-07 NSAE-00 USIA-06
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INFO AMEMBASSY ABU DHABI
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AMEMBASSY TEHRAN
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USDOC WASHDC

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ATHENS FOR RTDO

E.O. 11652: N/A
TAGS: BEXP
SUBJECT: GOK CONDITIONALLY APPROVES FIRST LARGE
PETROCHEMICAL PROJECT

REF: 76 KUWAIT 4377 AND PREVIOUS

SUMMARY: KUWAIT'S LONG-DELAYED, \$300 MILLION AROMATICS
PROJECT, ITS FIRST MAJOR PETROCHEMICAL VENTURE, HAS
FINALLY RECEIVED AT LEAST CONDITIONAL GOK APPROVAL. THIS
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DECISION IS IMPORTANT, NOT ONLY FOR THE TRADE OPPOR-
TUNITY FOR US FIRMS PROJECT OFFERS, BUT ALSO BECAUSE
OTHER AND LARGER PETROCHEMICAL PROJECTS LONG UNDER
STUDY MAY FOLLOW. END SUMMARY.

1. TO THE SURPRISE OF MANY, INCLUDING EXPATRIATE
EXPERTS EMPLOYED BY ITS SPONSOR, THE GOVERNMENT-OWNED

PETROCHEMICAL INDUSTRIES CORPORATION (PIC), KUWAIT'S COUNCIL OF MINISTERS QUIETLY APPROVED IN LATE MARCH GOING AHEAD WITH KUWAIT'S FIRST LARGE PETROCHEMICAL PROJECT, A \$300 MILLION AROMATICS PLANT. THIS DECISION, WE UNDERSTAND, WAS MADE SUBJECT TO STUDY OF OTHER, POSSIBLY COMPETING, PROJECTS IN THE GULF. WHILE THIS CONDITION COULD DELAY, OR POSSIBLY EVEN SCUTTLE KUWAIT'S PROJECT, PIC IS GOING AHEAD AS IF IT HAD BEEN APPROVED.

2. KUWAIT'S DECISION INDICATES SOME SORT OF A RESOLUTION OF THE LONG-STANDING DEADLOCK BETWEEN OFFICIALS FAVORING HYDRO-CARBON BASED PROJECTS SUCH AS THIS ONE AND THOSE (LARGELY IN THE FINANCE MINISTRY) OPPOSED TO THEM AS NOT ECONOMICALLY RATIONAL, ESPECIALLY WHEN COMPARED WITH INVESTMENT OPPORTUNITIES ABROAD. ORIGINALLY PROPOSED AS A 20/80 PERCENT JOINT VENTURE BETWEEN U.S. FIRM, W.R. GRACE, AND PIC, AROMATICS PROJECT HAD BEEN UNDER CONSIDERATION FOR THREE YEARS. UNABLE TO RESOLVE ISSUES SUCH AS THE PRICE OF FEEDSTOCKS, AND WORN DOWN BY CONTINUAL DELAY, GRACE FINALLY PULLED OUT OF THE PROJECT ON NOVEMBER 1, 1976. WITH GRACE'S DEPARTURE, MANY THOUGHT THE PROJECT WAS DEAD, SINCE ECONOMIC FEASIBILITY STUDIES HAD PREMISED 15 PERCENT NET RETURN ON INVESTMENT ON ASSUMPTION THAT PIC WOULD HAVE A FOREIGN PARTNER WITH A STRONG MARKETING CAPABILITY FOR THE PRODUCT, 1.3 MILLION METRIC TONS PER YEAR OF BENZENE AND XYLENE. PIC NOW PLANS TO GO AHEAD WITHOUT A FOREIGN PARTNER. THIS FINESSES THE QUESTION OF PROVIDING A DISCOUNT ON NAPHTHA FEEDSTOCK, BUT NOT MARKETING PROBLEMS.

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3. PIC SOURCES RECENTLY TOLD US THAT, WITH AROMATICS PROJECT MORE OR LESS APPROVED, COMPANY CAN NOW GO AHEAD WITH 9 MONTH FEASIBILITY STUDY BY US FIRM, CHEM SYSTEMS, ON ETHYLENE/POLYETHYLENE/STYRENE COMPLEX, WHICH WOULD COST AT LEAST \$500 MILLION TO BUILD. AROMATICS PROJECT WOULD INCREASE PIC STAFF FROM 1200 TO 1600. ETHYLENE/POLYETHYLENE/STYRENE COMPLEX, IF APPROVED AND CARRIED OUT, WOULD DOUBLE THIS NUMBER OF EMPLOYEES AND REQUIRE TEMPORARY IMPORT OF MANY THOUSANDS OF WORKERS FOR CONSTRUCTION.

4. IMPLICATIONS FOR US TRADE. PIC IS NOW SEARCHING FOR TOP MANAGEMENT TEAM TO HANDLE CALL FOR BIDS AND AROMATICS PROJECT ITSELF AND IS IN TOUCH WITH NY FIRMS. CONSTRUCTION OF PLANT IS OBVIOUSLY MAJOR TRADE OPPORTUNITY. HOWEVER, GIVEN PAST CHECKERED HISTORY OF THIS PROJECT, SENIOR KUWAITI PIC OFFICIAL AGREED THAT "WE ARE NOW AT ACT III, SCENE 5 (REGARDING APPROVAL). HOPEFULLY THE PLAY ONLY

HAS THREE ACTS." EVEN ASSUMING THAT THE CONDITION ABOUT
A STUDY OF GULF PROJECTS DOES NOT TURN OUT TO BE AN
EFFECTIVE DELAYING TACTIC ON THE PART OF THOSE WHO
OPPOSE AROMATICS PROJECT, PIC OFFICIALS ESTIMATE THAT IT
MAY TAKE 21 MONTHS JUST TO PUT THE PROJECT OUT TO TENDER,
MAKING CONSTRUCTION UNLIKELY TO BEGIN BEFORE LATE 1979
AT THE EARLIEST. THUS PRESS REPORTS THAT PLANT WILL BE
COMPLETED BY 1981 ARE PROBABLY UNREALISTIC. DECONTROL
ON RECEIPT.
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